

FDIC State Profile

Summer 2004

Alaska

Employment growth in Alaska has continued to outpace the nation.

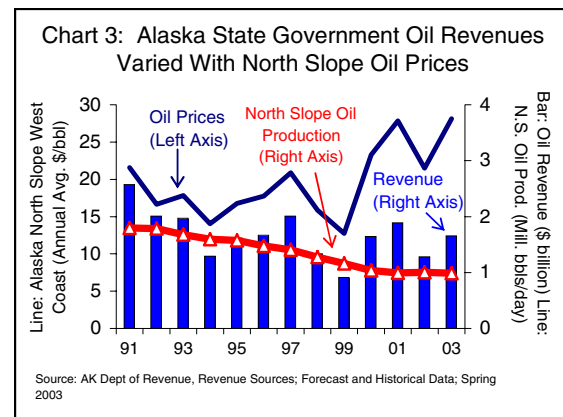
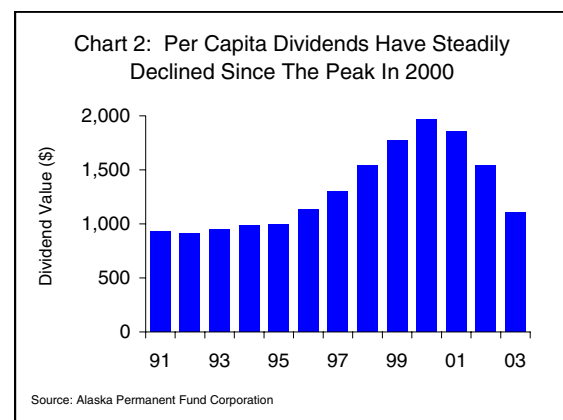
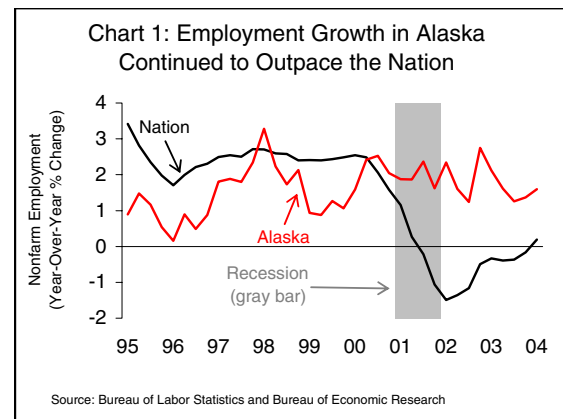
- Employment increased by 1.6 percent (about 4,000 jobs) on a year-over-year basis as of first quarter 2004.
- Health services sector employment increased by over 6 percent in first quarter 2004, making it the largest contributor to the state's recent growth (See Chart 1). Quarterly job growth in this sector has exceeded 6 percent since mid-2001.
- The state's construction sector made a strong contribution to overall growth, reporting year-over-year growth of 6.8 percent in first quarter 2004. Both public and residential projects spurred growth in this sector, including the renovation of highways, railroads, and school districts around Anchorage and the construction of new residential units for several military bases in and around Fairbanks.

Alaska's consumer sector is vulnerable to changes in the Permanent Fund.

- Alaska's Permanent Fund, initially developed to share the state's oil revenues with residents, has become an important component of per capita personal income.
- Since its peak in 2000, the Permanent Fund dividend paid to Alaska's residents has steadily declined (See Chart 2), falling to just over \$1,100 per capita in 2003.
- Going forward, further declines in the dividend amount, resulting from poor investment returns of fund assets, may negatively impact consumers' cash flow, especially those at lower income levels.

Alaska's government sector faces challenges, but is faring better than several other states in the Region and nation.

- Overall, employment growth in Alaska's government sector, representing over 28 percent of the state's total employment, expanded 0.37 percent year-over-year in first quarter 2004, substantially less than the 2.3 percent growth recorded in first quarter 2003.
- Although Alaska's \$2.1 billion Stabilization Fund will be used to offset a large portion of the projected 2004 budget deficit, the state is expected to cut \$68 million from health



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services, \$44 million from elderly longevity bonuses, and \$37 million from local communities.

- State government revenues and oil prices varied significantly over the past decade (See Chart 3). For example, state revenues increased in 2003, when oil prices rose, despite a decline in the state's overall oil production.

Asset quality exhibits modest improvement during the first quarter of 2004

- The median ratio of past-due loans declined to 1.96 percent at March 31, 2004, down from 2.11 percent one-year earlier. The improvement in past-due levels was noted across all loan types, including commercial real estate, commercial and industrial, residential real estate, and consumer portfolios (See Chart 4).
- Although the median reserve coverage of non-current loans increased to 1.81 percent as of March 31, 2004, up substantially from 1.09 percent one-year earlier, it remained below the coverage ratio of 1.85 percent nationwide.

Earnings remained relatively stable and the shrinking net interest margin was offset by lower overhead and cost of funds.

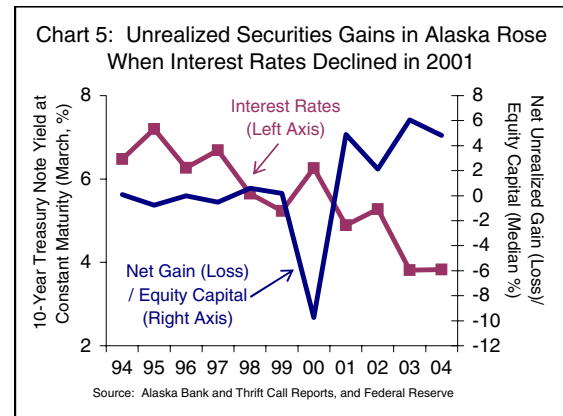
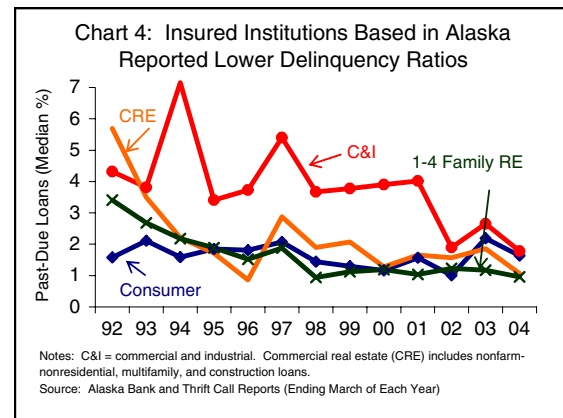
- The median quarterly return-on-assets ratio for insured institutions headquartered in Alaska decreased slightly to 1.07 percent as of March 31, 2004, down from 1.13 percent one-year earlier. The slight falloff in profitability resulted from a narrowing of the net interest margin (NIM) coupled with lower noninterest income, and offset to some degree by lower overhead expenses and a reduced cost of funds.
- The median net interest margin (NIM) fell slightly to 4.70 percent as of March 31, 2004, down from 4.76 percent one-year earlier. Despite the decline, the median NIM remained well above the national median of 3.97 percent.
- Alaska institutions hold a significantly higher proportion of noninterest bearing deposits than reported nationally. The median non-interest bearing deposit-to-earning asset ratio in Alaska institutions was 26.53 percent for the first quarter of 2004, over 14 percentage points above than the 12.06 percent ratio reported nationally. These sizeable holdings of non-interest bearing deposits resulted in a cost of funding earning assets less than half that reported industry-wide.

Rising interest rates could reduce potential revenue from unrealized securities gains.

- During the low interest rate environment of 2003 and the first quarter 2004, five of the seven insured institutions

in Alaska realized security gains. However, this source of income is unlikely to be available should interest rates rise (See Chart 5).

- Insured institutions increased their holdings of securities to 33.70 percent of assets as of first quarter 2004, up from 28.7 percent one-year earlier. This is significantly above the national median of 21.8 percent. Growth in securities portfolios outpaced loan portfolio growth and has occurred due to relatively low loan demand coupled with the high volume of non-interest bearing deposits. The median ratio of loans-to-deposits for institutions in Alaska is 71 percent versus 78 percent nationwide.



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Alaska at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	7	8	8	8	8
Total Assets (in thousands)	3,787,651	6,972,041	6,492,440	6,330,556	5,603,057
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	8.97	9.04	9.10	9.04	9.44
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.96%	2.11%	1.68%	1.69%	2.02%
Past-Due and Nonaccrual >= 5%	0	0	0	0	0
ALLL/Total Loans (median %)	1.17%	1.39%	1.33%	1.23%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.81	1.09	1.47	2.11	4.00
Net Loan Losses/Loans (aggregate)	0.09%	0.21%	0.22%	0.16%	0.29%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	0	0	0	0	0
Percent Unprofitable	0.00%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.07	1.13	1.18	1.03	1.09
25th Percentile	0.88	0.93	0.97	0.64	0.95
Net Interest Margin (median %)	4.70%	4.76%	4.88%	4.89%	5.22%
Yield on Earning Assets (median)	5.27%	5.96%	6.66%	8.24%	8.23%
Cost of Funding Earning Assets (median)	0.67%	1.00%	1.69%	3.46%	3.25%
Provisions to Avg. Assets (median)	0.09%	0.11%	0.15%	0.09%	0.06%
Noninterest Income to Avg. Assets (median)	0.93%	1.09%	1.03%	0.89%	1.03%
Overhead to Avg. Assets (median)	3.68%	3.85%	3.79%	3.82%	4.17%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	71.31%	62.99%	64.69%	68.29%	70.87%
Loans to Assets (median %)	51.22%	51.23%	48.04%	48.58%	52.38%
Brokered Deposits (# of Institutions)	2	2	0	1	2
Bro. Deps./Assets (median for above inst.)	1.70%	1.81%	na	1.27%	0.78%
Noncore Funding to Assets (median)	18.03%	18.37%	17.92%	21.73%	19.08%
Core Funding to Assets (median)	72.14%	72.00%	69.25%	65.84%	70.29%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	3	3	3	3	3
National	2	3	3	3	3
State Member	0	0	0	0	0
S&L	0	0	0	0	0
Savings Bank	1	1	1	1	1
Stock and Mutual SB	1	1	1	1	1
MSA Distribution	# of Inst.		Assets	% Inst.	% Assets
No MSA	4		827,723	57.14%	21.85%
Anchorage AK	3		2,959,928	42.86%	78.15%